

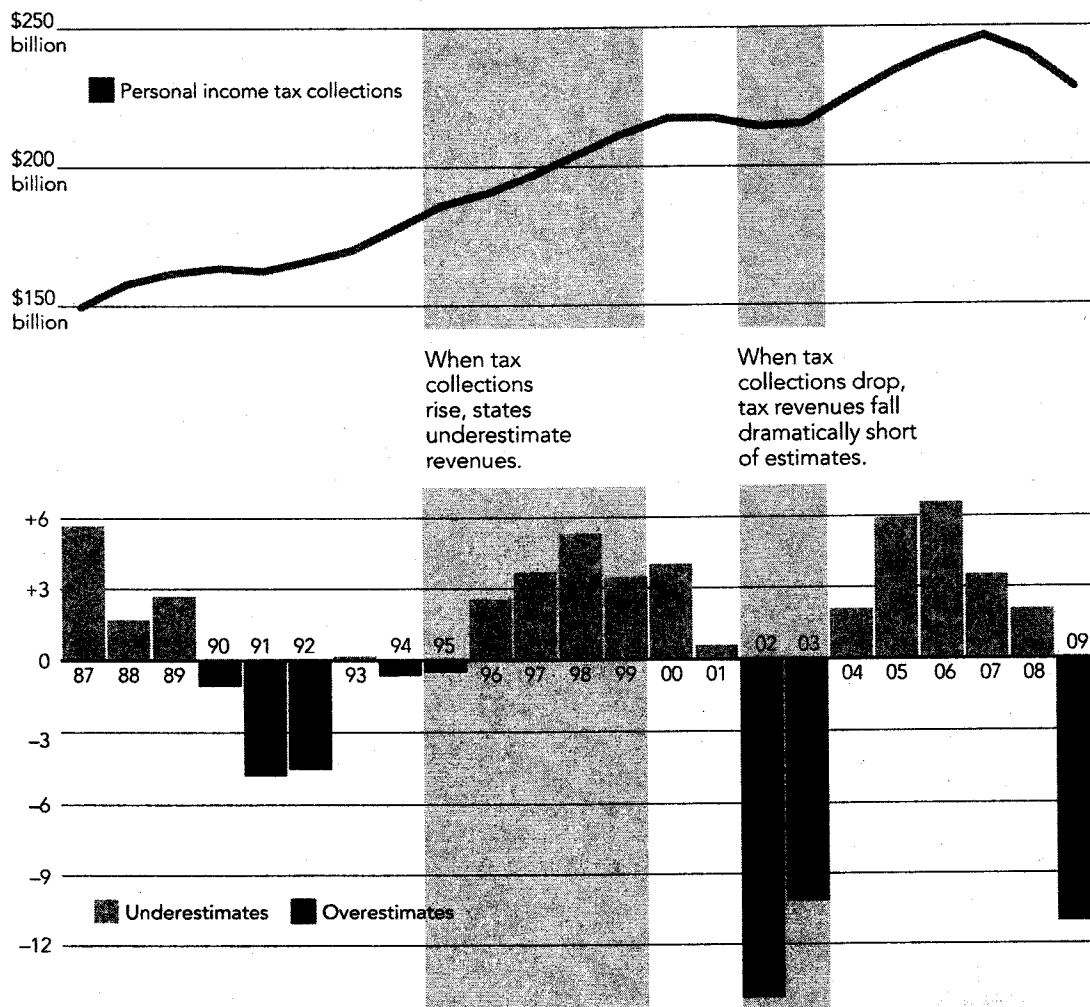
less volatile than corporate income taxes, also are sensitive to changes in the economy. Sales taxes traditionally have been the most stable of these three revenue sources. Lately, however, they, too, have been behaving erratically.

Over the 23-year study period, all three taxes demonstrated positive errors. In other words, states have tended to slightly underestimate them. But of course, during recessions, overestimates are far more common. Our research showed that the

### Exhibit 7

## Personal income tax revenue compared to estimating errors

The median percentage errors for estimating personal income taxes mirror the fluctuations in revenue growth. When growth slows, states overestimate revenue. When collections shrink, states see the largest negative errors.



SOURCE: Pew Center on the States and The Nelson A. Rockefeller Institute of Government, 2011, based on data from the Rockefeller Institute of Government, National Association of State Budget Officers and the National Governors Association.

## WHAT IS CAUSING THE ERRORS?

streams can make it even more difficult to predict revenues. In Tennessee, for example, the tax on dividend income fell by 40 percent in 2009, from \$300 million to under \$180 million.<sup>77</sup>

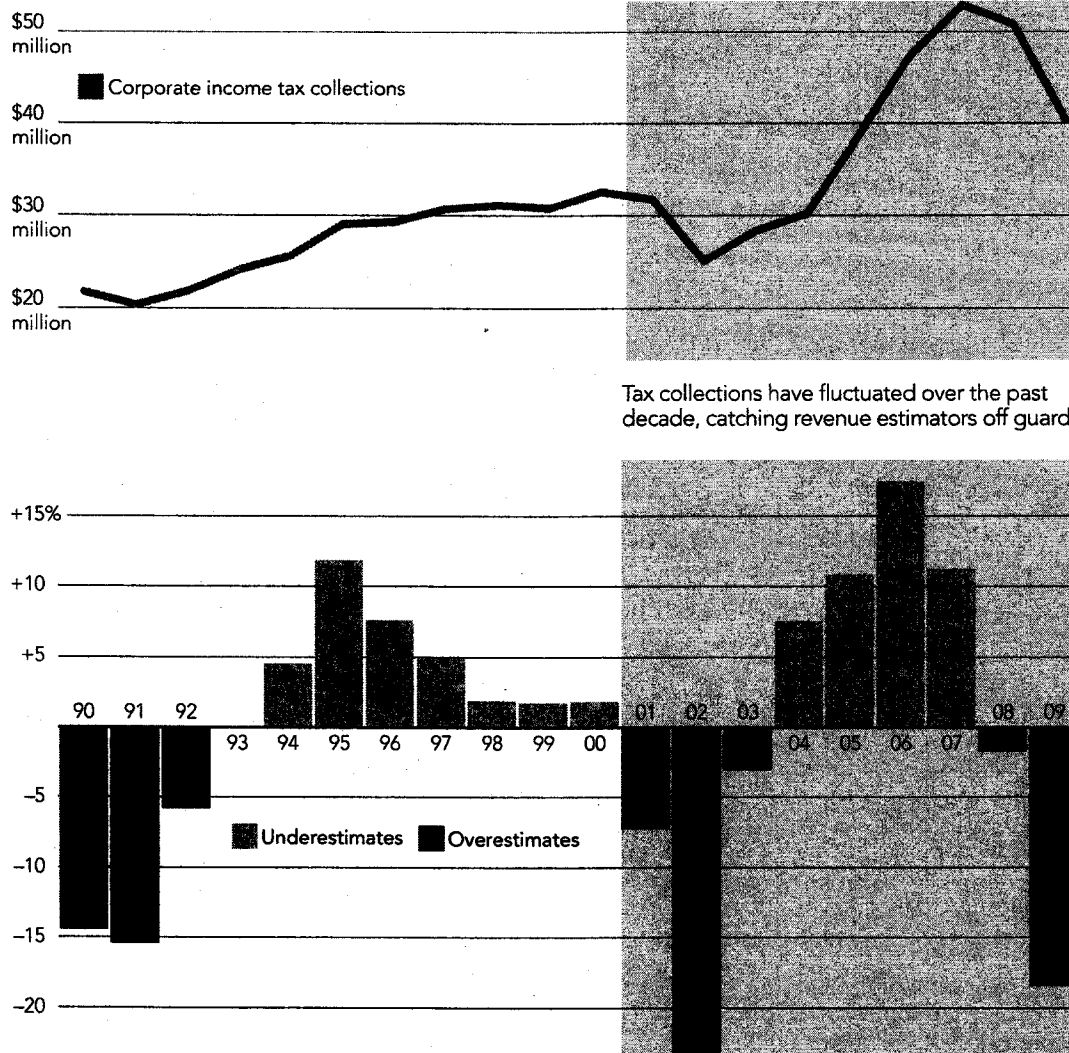
### Sales Tax

Typically, sales taxes have been a more stable source of revenue for states than income taxes, and thus are easier for estimators to forecast: The median error

Exhibit 8

### Corporate tax revenue compared to estimating errors

Revenue estimating errors for the corporate income tax, the most volatile revenue stream, fluctuate the most widely. When growth slows, states overestimate revenue. When collections shrink, as shown in the 2001 downturn, states see the largest negative errors.



Tax collections have fluctuated over the past decade, catching revenue estimators off guard.

SOURCE: Pew Center on the States and The Nelson A. Rockefeller Institute of Government, 2011, based on data from the Rockefeller Institute of Government, National Association of State Budget Officers and the National Governors Association.